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Tax Tips for Locksmiths

Sales and Use Taxes

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PREFACE

This publication is intended as a general guide to the Sales and Use Tax Law and Regulations as they apply to locksmiths.

If you cannot find the information you are seeking in this booklet, please contact our Information Center: 800-400-7115. Representatives are available to answer your questions weekdays between 8:00 a.m. and 5:00 p.m. More information on Information Center services is found on page 17.

You may also write the Board to request written advice regarding a particular transaction. For more information, see page 18.

For general information about sales and use taxes, your obligations as the holder of a seller's permit, and information on filing tax returns, see *Your California Seller's Permit*, another Board of Equalization publication (no. 73). It includes general information about obtaining a permit; using a resale certificate; reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. If you do not already have a copy of this booklet, you may request one from the Information Center. Information on ordering publications begins on page 17.

We welcome your suggestions for improving this or any other tax tip publication. You may use the reader survey on page 23 to comment, or write:

Policy Development Section, MIC:50
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0050

Note: This pamphlet summarizes the law and applicable regulations in effect as of January 2003. However, changes in the law or in the regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, decisions will be based on the law and not this pamphlet.

1. Locksmith Tax Basics — Types of Transactions

Locksmith transactions, in general

This chapter provides basic information on locksmith transactions, particularly those that involve work on personal property such as automobiles, furniture, and boats. It describes how tax applies to your charges for labor, materials, and supplies. See chapter 2 for information on how tax applies to jobs involving real estate such as houses and other buildings.

Your locksmith activities generally fall into one of the following basic categories:

- Sales that do not involve labor or services.
- Jobs that involve labor or services only.
- Jobs that involve labor or services *and* charges for merchandise or materials.

Sales that do not involve labor or services

When you sell merchandise such as locks, locksets, lubricating spray, and lock parts without providing any labor or services, your sale is usually subject to sales tax. You must pay tax on the sale with your sales and use tax return.

Jobs that involve labor or services only

Some of your work may involve charges for labor or services only. Generally, if you do not furnish any materials in the course of your job and your charge does not include amounts for materials, your work is not taxable. For more information, see “Jobs that include repair or installation,” on page 3 and the summary table on page 21.

Jobs that involve labor or services and charges for materials

When your job includes both labor and materials, sales tax may apply to the entire charge or only to your charges for materials. As explained in the following sections, the application of tax will vary depending on the circumstances of the transaction.

Applying tax to labor and service charges

While many business people mistakenly believe that labor and service charges are always exempt from tax, some of the services you perform in your locksmith operations may be taxable. In general, tax applies to charges for *fabrication labor*, but not to charges for work considered installation or repair.

◆ **Fabrication—making new keys and similar work**

When you make a new item of personal property and transfer the item to your customer, the labor required to make the item is considered *fabrication*, and your charges for that work are taxable. Making keys, for example, is considered fabrication. Sales tax applies to all of your charges for the work involved in making the item and to your charge for the item itself. This is true whether you charge separate amounts for labor and materials or combine your charges in one lump sum.

See table on page 22 for a summary of how tax applies to the labor involved in common locksmith transactions.

Please note that tax applies to your charges whether you provide the materials or use materials provided by your customer.

Examples of fabrication labor performed by locksmiths include

- Making new keys by duplication or cutting by code.
- Making an “old key” if necessary to re-key a lock, if you provide the old key to your customer (an “old key” is a new key made in order to open an old lock).
- Installing locks or alarms on *new* personal property, such as automobiles, desks, safes, and boats. An automobile is considered new if it qualifies as a new vehicle when registered with the Department of Motor Vehicles and you contract to work on the vehicle within 60 days of its registration date.

You may wish to obtain a copy of Regulation 1526, *Producing, Fabricating and Processing Property Furnished by Consumers—General Rules* for further information on fabrication labor. Ordering information begins on page 17.

◆ **Repair—opening locks, re-keying locks, and similar work**

Other common locksmith jobs involve *repair labor*. Repair labor is considered to be the repairing or reconditioning of an item to refit or restore it for its original use. Charges for repair labor alone are not taxable. However, tax may apply to the merchandise or material you transfer to your customer as part of your repair job (see next page).

For example, if you repair or replace a broken lock on a customer’s used car, your itemized labor or service charges for the repair are considered nontaxable repair labor. Tax will generally apply to your separate charges for the materials you provide in the repair work.

Examples of common locksmith repair jobs include

- Removing and replacing a lock in order to make a new key.
- Making an “old key” if necessary to re-key a lock (provided you keep the “old key” rather than provide it to your customer).
- Opening locks.
- Replacing locks in *used* personal property such as automobiles, desks, safes, and boats (see definition of new automobile above).
- Changing a safe’s combination or servicing the safe.

◆ **Installation—installing locks and similar work**

Installation labor is considered to be the installation or application of a ready-made, separate product. For example, if you install an alarm in a used car, your work would be considered installation. Charges for

**Applying tax to
charges for
materials—jobs
including labor
or services
performed on
personal property**

*For information on
applying tax when you
work on real estate such
as a house or office
building, see chapter 2,
beginning on page 5.*

installation labor are not taxable. However, charges for materials you provide in installing a product may be taxable (see page 4).

See Regulation 1546, *Installing, Repairing, Reconditioning in General* for further information on the application of tax to repair transactions (ordering information begins on page 17). Information on applying tax to materials used in installation jobs involving real property is found in chapter 2, beginning on page 5.

◆ **Service charges or trip charges**

Your service or trip charge associated with a job or sale may be taxable. For more information, see “Trip charges and service calls,” beginning on page 8.

◆ **For more information on labor charges**

The summary table on page 22 and the examples in the Appendix include information on how tax applies to labor charges for specific locksmith operations. If you don’t find the information you need, please call the Board’s Information Center for help (see page 17).

In the course of your work as a locksmith, you commonly furnish or use merchandise and materials such as locks, keys, safes, alarms, locksets, key wafers, and lock components. For certain locksmith jobs, you are considered the *retailer* of the merchandise and materials you provide, and your charges for materials are taxable. You may issue a resale certificate to your supplier when you buy materials you will sell as a retailer (see “Purchases for resale” on page 11).

In other situations you are considered the *consumer* of materials for tax purposes. When you are considered a consumer, your charges for materials are not taxable. Your purchases, however, are subject to tax and you should not issue a resale certificate to your supplier (see “Purchases for resale” on page 11). If your supplier does not charge you an amount for California tax, you will generally owe *use tax* on the amount you paid for the materials (see “Purchases subject to use tax,” page 12).

◆ **Fabrication of personal property, such as keys**

When your job involves fabrication of personal property such as keys, you are considered the retailer of materials you provide on that job and tax applies to your charges for them (see page 1).

◆ **Jobs that include repair or installation**

When your job involves repair or installation, you may be considered the consumer of any materials you use rather than the retailer. When you are working on *personal property* such as automobiles, boats, or furniture, whether you are considered the retailer or consumer of

***Jobs that include
repair or installation
(continued)***

***Applying tax to
charges for materials
when job involves
repair or installation
on personal property***

materials depends on your billing method and may vary depending on the relative value of the materials to your total charge (see table below). Different conditions apply to work performed on real estate such as a house or store, as explained in the next chapter.

<i>Terms and condition of sale, locksmith job that includes repair or installation on personal property</i>	<i>Is the locksmith a retailer or a consumer?</i>	<i>Are locksmith's charges for materials taxable?</i>
Separate charge listed for materials	Retailer	Yes
Labor and materials billed as one lump-sum amount Retail value of materials is <i>more than 10%</i> of total charge	Retailer	Yes
Retail value of materials is <i>10% or less</i> of total charge	Consumer	No

As noted above, sales tax applies to your separate charges for materials when you perform repair or installation work on personal property. However, if you charge your customer a lump-sum amount, tax applies *only* if the fair retail selling price of the materials is *more than 10 percent* of your total charge.

For example, you may repair the locks on a customer's desk and file cabinets, charging your customer \$46 for labor and \$4 for materials. If your invoice shows a separate \$4 charge for materials, you are considered a retailer and your charge for materials is taxable.

On the other hand, you may charge your customer one \$50 lump-sum amount for labor and materials. Since \$4 is less than 10 percent of your total \$50 charge ($\$50 \times 10\% = \5), you are considered the consumer of the materials and sales tax does not apply. You must pay an amount for tax when you buy the materials or pay use tax with your sales and use tax return. However, if the retail value of the materials was more than \$5 (more than 10 percent of your \$50 charge), you would be the retailer of the materials and would owe tax on their selling price.

◆ Supplies

Supplies are considered to be those items you use in your business that do *not* become a physical part of the final products you sell, install, or repair. Common examples for locksmiths include cleaning solvent, rags, and steel wool. You are considered the consumer of your supplies and you should expect to pay an amount for tax to your vendor when you buy them. If you do not, you generally must report use tax based on their purchase price (see "Purchases subject to use tax," page 12).

2. Work Performed on Real Estate: Houses, Stores, Office Buildings, and Apartments

This chapter explains the basic sales and use tax rules that apply to your locksmith jobs when you are working on real estate such as houses, apartment buildings, stores, and office buildings. For more information, you may wish to obtain a copy of Regulation 1521, Construction Contractors. Ordering information begins on page 17.

**Are you
considered a
construction
contractor for sales
and use tax
purposes?**

You may install or repair locks, alarms, door hardware, safes, or other items that are attached to real property such as houses, apartment buildings, office buildings, or stores. When you work on an item attached to real property you are generally considered a construction contractor for sales and use tax purposes, even if you do not hold a contractor's license. Any work you perform on real property is considered a construction contract and falls under special sales and use tax rules.

◆ Types of construction contracts

Most locksmith construction contracts fall into one of two basic categories. In a *lump-sum contract*, you bill your customer one set, agreed-upon amount for all charges associated with your work. In a *time-and-materials contract*, you bill your customer separate amounts for labor (time) and for the materials you furnish for the job.

**Applying tax to
labor charges—
construction
contracts**

In most situations, sales tax does *not* apply to the labor portion of charges included in a construction contract, whether you bill your customer one lump-sum amount or for time and materials. This rule is true when you perform work on items that are attached to the building or which are part of it, such as locks, alarm systems, and built-in safes. However, if you fabricate keys or other separate items of personal property as part of the job, your charge for that work is taxable fabrication labor (see page 1) and you should itemize it on your bill.

Example: You re-key all of the locks in a store and provide a master key system for them. You design a master key system, remove and re-key all the locks using new or used cylinder pins and master-key wafers. You furnish master keys and change keys to your customer and reinstall the locks. Your charges for the work you perform on the locks is not taxable since they are attached to the building. However, tax would apply to your charges for fabricating and furnishing the keys, including your charges for the key materials. The keys are separate items of personal property and are not attached to the real estate.

Service or trip charges

Service or trip charges associated with a construction contract may be taxable. For more information, see “Trip and service call charges,” beginning on page 8.

For more information

For more information on applying tax to labor charges, you may wish to refer to the table and examples in the Appendix, which begins on page 20. If you need additional help determining how tax applies to your job, please call our Information Center for help (see page 17).

Applying tax to charges for materials—construction contracts

Materials are generally considered to be products that become part of the real estate, such as locks, locksets, strike plates, door hardware, and electronic lock systems. When you are considered the *consumer* of materials furnished in a construction contract, sales tax does not apply to amounts you charge for materials. However, when you are considered the *retailer* of materials furnished for a construction contract, sales tax does apply to your charges for materials.

You are considered the consumer of materials used in a construction contract when you bill your customer one combined, lump-sum amount for labor and materials. You also are considered the consumer in a time-and-materials construction contract *unless* you bill a separate amount for materials and *one* of the following conditions exists:

- The contract explicitly states that ownership of the materials transfers to the customer before they are installed.
- You bill your customer an amount for “sales tax” computed on a marked-up billing for materials.

If you bill a separate amount for materials *and* either condition above applies, you are considered the retailer of the materials you furnish for the job and tax applies to your charges for them.

◆ Applying tax to purchases of materials furnished in construction contracts

When you are the retailer of materials furnished in a construction contract, you may issue a resale certificate to your supplier when you buy those materials (see “Purchases for resale, “ on page 11). When you are considered the consumer of materials furnished for a construction contract, you must pay tax to your supplier at the time of purchase. If you buy materials without paying an amount for California tax at the time of purchase, you generally must pay use tax to the Board based on their purchase price (see “Purchases subject to use tax,” beginning on page 12).

Example, locksmith-contractor considered consumer of materials

You contract with a theater owner to install panic hardware on the doors of a theater for a set price of \$750. Your invoice shows one \$750 charge and does not include separate amounts for materials or sales tax. You do not owe sales tax on the transaction because you are considered the consumer of all materials furnished. However, you would be required to pay an amount for tax to your supplier when you purchase materials for the contract, or pay use tax to the Board based on the amount you paid your supplier.

Example, locksmith-contractor considered retailer of materials

You contract with an apartment building owner to install an electronic lock system. Your contract specifies that you will charge an hourly rate for labor plus amounts for materials. Your invoice shows separate charges for labor, the lock system, and sales tax. Since you have billed a separate amount for materials and charged an amount for sales tax, you are considered the retailer of the materials and must pay tax to the Board on your charges for them. You may issue a resale certificate to your supplier when you buy the materials you will furnish for the job.

◆ Personal property fabricated along with work performed under a construction contract: keys and similar items

Locksmiths often fabricate and sell items of personal property, such as keys, along with the repair or installation work they perform in a construction contract. When you make and sell new items of personal property, all of your charges for materials and labor related to those items are taxable (see fabrication labor information, page 1). If you fabricate personal property such as keys in conjunction with a construction contract, you should be sure to itemize and pay tax on the amounts you charge for the personal property items—including any charges for related labor or services. You may charge your customer an amount for tax equal to the amount you will owe on the sale.

◆ Supplies

Supplies are considered to be those items you use in your business that do not become a physical part of the final products you sell. Common examples for locksmiths include cleaning solvent, rags, and steel wool. You are considered the consumer of your supplies. You should expect to pay an amount for tax to your vendor when you buy supplies. If you do not, you generally must report use tax based on their purchase price (see “Purchases subject to use tax,” page 12).

3. Other Locksmith Charges, Sales, and Purchases

This chapter includes information on other common sales and use tax issues for locksmiths, including trip or service charges, delivery charges, leases, and making sales and purchases for resale.

Trip and service call charges

A *trip charge* or a charge for a *service call* may be nontaxable, fully taxable, or partially taxable, depending on conditions of the transaction.

◆ **Trip or service charge not taxable**

A trip charge or service call is not taxable when

- You are the consumer of the materials furnished for the job.
- Your job involves labor or services only and you do not transfer any merchandise to your customer.

For example, you may charge an amount for a service call when the only work you perform is opening a lock. Since opening a lock is a nontaxable repair service, tax would not apply to your service call charge.

◆ **Trip or service charge fully or partially taxable**

If you are the retailer of materials furnished for a job, all or part of your related trip charge or service call charge is taxable. If all of your other charges for a job are taxable, the full amount of your trip charge is also subject to tax.

Job includes both taxable and nontaxable charges

When your job includes both taxable and nontaxable charges, tax applies to part of your trip charge. To determine how much of the trip charge is taxable, you should follow these steps:

1. Total your charges for services and materials, not including the trip charge.
2. Total the taxable portion of your charges.
3. Divide the result of step 2 by the result of step 1.
4. Multiply the trip charge by the result of step 3. The result is the taxable portion of the trip charge.

Example: You make a house call that involves nontaxable repair of a deadbolt lock and taxable fabrication charges for cutting a new key. Your trip charge is \$30. To figure out how much of your trip charge is taxable, you

1. Determine that your subtotal without the trip charge is \$75.
2. Determine that the taxable portion of the charges—for cutting and providing the key—is \$25.

3. Divide subtotal of \$25 by taxable subtotal \$75: $\$25 \div \$75 = 33\%$.

4. Multiply the trip charge by the result: $\$30 \times 33\% = \10 .

Tax would apply to \$10 of your trip charge.

Taxable total: \$35 (\$25 key charge + \$10 taxable part of trip charge)

***Sale does not involve
any service other than
delivery***

A trip charge or service call charge is taxable if the charge is made only for delivering merchandise you have sold and there is no explicit written agreement transferring ownership to your customer prior to delivery (see next section).

Delivery charges

If you charge a separate amount for a delivery, your charges are generally taxable if

- You make the charge in connection with a taxable sale, *and*
- You make the delivery in your own vehicle.

However, if your contract specifies that ownership of the property transfers to the customer prior to delivery, tax does not apply to your separately stated delivery charges, provided the charges are reasonable for the service provided. In addition, under certain circumstances, deliveries you make using delivery or shipping services are not subject to tax.

For more information on how tax applies to delivery-related charges, you may wish to order publication 100, *Shipping and Delivery Charges*, and Regulation 1628, *Transportation Charges*. Ordering information begins on page 17.

Leases

If you lease a safe or alarm to a customer rather than selling it outright, tax generally applies to the lease payments you receive. However, tax does *not* apply to the payments if you lease the item in substantially the same form as you acquired it, *and*

- You paid an amount for sales tax when you bought the item, *or*
- You paid use tax on the purchase price of the item when the use tax was due (with the timely filed tax return for the reporting period in which you first lease the safe or alarm to your customer).

This is true whether the item is installed in real property or attached to personal property. In addition, separately stated installation charges for items you lease are not taxable.

Sales for resale

◆ Sales for resale—items of personal property (not attached to real estate)

When you sell an item of personal property from your shop to another business person who will resell it, and you accept a valid

Sales for resale (continued)

resale certificate in good faith and in a timely manner, your sale is considered a nontaxable sale for resale. Similarly, when you perform work on personal property and you are considered the retailer of materials furnished for the job, you can accept a resale certificate from your customer if he or she will resell the final product. However, when you are considered the consumer of materials on a job, you cannot legitimately accept a resale certificate from your customer.

Example: You re-key the locks on a used automobile for a used car dealer who will sell the car. Your total lump-sum charge for the work is \$175. The portion of your charge included for materials, including keys, is \$15. Since your materials charge is less than 10 percent of the lump-sum charge ($\$175 \times 10\% = \17.50), you are considered the consumer of the materials and tax applies to your purchase of those materials (see in table on page 4: "Retail value of materials is 10% or less of total charge"). As a result, although your customer will resell the car on which you performed the work, you cannot accept a resale certificate for the cost of the materials. Your labor charges are not taxable because they are considered repair labor.

For more information, you may wish to obtain a copy of publication 103, *Sales for Resale*. See page 17 for ordering information.

◆ Selling materials and supplies as a construction contractor

In general, you may not accept a resale certificate for work you perform under a construction contract as a contractor or subcontractor. Therefore, you may not accept a resale certificate from a prime contractor, interior decorator, designer, department store, or any other person who has contracted with you to perform the work (see exception, below, regarding certain leased fixtures). Tax applies to your contract as explained on pages 5 through 7.

Example: You are hired as a subcontractor to install an electronic lock system in a commercial building. Your customer is the prime contractor for the project. You cannot accept a resale certificate from the prime contractor for the lock system materials.

Exception: When you furnish and install *fixtures* as a construction contractor, you may accept a resale certificate for the product *only* if you

- Furnish and install the fixture, such as a safe, for a person other than the owner of the building; *and*
- That person will lease the fixture to another party and pay tax on the rental receipts.

For more information, you may wish to obtain copies of Board Regulations 1521, *Construction Contractors*, and 1668, *Sales for Resale*. Please contact our Information Center if you have any questions (see page 17).

Purchases for resale

You may issue a resale certificate to your supplier when you purchase an item you will sell as a retailer. However, if you know at the time you make the purchase that you will use the item—either for personal purposes or as a consumer—you should not issue a resale certificate. Instead, you should pay an amount for tax to your supplier. If you do not pay an amount for tax at the time of purchase and you do not hold the item for sale in your business, you will owe use tax on your purchase (see “Purchases subject to use tax,” page 12). For more information on making purchases for resale, you may wish to obtain a copy of Regulation 1668, *Sales for Resale*. Board publications 42, *Resale Certificate Tips*, and 103, *Sales for Resale*, also contain information that may help you decide when you can legitimately make a purchase for resale. Ordering information begins on page 17.

4. Reporting Tax and Related Issues

This chapter includes information on reporting sales and use tax to the Board, common deductions, and keeping records.

Reporting sales tax

You generally must report all of your charges on your sales and use tax return. The amount you list for total (gross) sales must include all of your charges for merchandise, labor, overhead, delivery, trips, and so forth, whether the charges are taxable or nontaxable. The tax due with each return is based on your total gross sales for the period less any allowable nontaxable sales and deductions.

Collecting an amount for tax from your customer

When you make sales as a retailer, the law allows you to collect from your customers an amount equal to the sales tax you will owe on each sale. This is known as “tax reimbursement.” You may add the reimbursement amount to your charges, being sure to itemize the amount on your invoice or receipts (most retailers itemize this charge as “sales tax”). Or you may include it in the total price you charge. If you choose the latter method, you must post a visible sign stating, “All prices of taxable items include sales tax reimbursement calculated to the nearest mill,” or include a similar statement on your sales receipts.

Reporting charge and credit sales

The “total sales” you list on your sales and use tax return must include the price of items you sold on credit during the reporting period, even though you may not receive full payment until a later date. Tax is due on the full selling price. However, you may exclude amounts for insurance, interest, finance, and carrying charges from the taxable selling price you report for a credit sale, provided you keep adequate and complete records documenting those charges.

Example: In June you re-key a customer’s car door lock and cut two new keys for \$150. Your customer pays you \$100 and agrees to pay the balance in future months. Regardless of when you receive the balance due, the full \$150 sale must be included in your tax return for the reporting period that includes the month of June.

Credit card sales

You should report credit card sales as if they were cash transactions. The service charge or “discount” you pay the credit card organization is not allowed as a discount or deduction for sales tax purposes.

Purchases subject to use tax

Merchandise that you purchase for resale and then use for another purpose is generally subject to *use tax* based on the purchase price.

The rate for the use tax is the same as the sales tax rate in your location. You must report the cost of merchandise subject to use tax on your sales and use tax return under “Purchases Subject to Use Tax.”

For example, you issue a resale certificate to your supplier when you buy a case of ten deadbolt locks that you intend to sell in your shop. You

- Sell eight locks to walk-in customers, and
- Install two locks in a house under a lump-sum contract.

You are the retailer of the eight locks and you must pay sales tax to the Board on the amount you receive for them. You are the consumer of the two installed locks, as explained in chapter 2. Since you did not pay an amount for tax on the two locks when you purchased them, you now owe use tax on their purchase price. You must report the amount subject to use tax on the sales and use tax return for the period in which you used (installed) the locks.

◆ Purchases from out-of-state vendors

Unless your purchase is for resale, you owe use tax on items you buy from an out-of-state vendor if the vendor does not collect an amount for California sales or use tax from you. Use tax is due on purchases of items such as

- Materials you use rather than sell, including materials you furnish and install on a job as a consumer.
- Supplies such as cleaning solvent, lubricants, or office supplies.
- Tools.
- Store and office fixtures and equipment.

You must report the cost of these items as “Purchases Subject to Use Tax” on your sales and use tax return.

Credit against use tax liability for payment of another state's sales tax

If you were required to pay, and did pay, another state's sales tax on a purchase, you may take a credit against your *use tax* liability by

- Reporting the amount of the purchase under “Purchases Subject to Use Tax.”
- Deducting the amount of tax paid under “Taxes Imposed by Other States” on your return. You can claim a credit up to the amount of California use tax due.

Please note: You may not claim this credit against your *sales tax* liability for merchandise you resell.

Common deductions

◆ Nontaxable labor

As noted in the first two chapters of this pamphlet, tax does not apply to certain labor and service charges. If you include amounts for nontaxable labor in the total sales figure on your sales and use tax return, be sure to also deduct those amounts by listing them under “Nontaxable labor.”

◆ Tax-paid purchases resold prior to use

You may take a deduction on your sales and use tax return if you pay an amount for California sales or use tax when you buy an item, and then sell it in a taxable transaction before you use it in any way. Include the price of the item under “tax-paid purchases resold prior to use.” More information is available in Regulation 1701, *Tax-Paid Purchases Resold*.

◆ Bad debts

If your customer’s check is not honored by the bank or if a customer buys on credit and does not pay you, you may be able to take a bad debt deduction to recover tax you paid on the sale. The bad debt must be charged off for income tax purposes. If you do not file income tax returns or file those returns on a cash basis, the bad debt must be charged off in accordance with generally accepted accounting principles.

Your deduction would be limited to the portion of the bad debt on which you had paid tax on an earlier return. If only part of the unpaid charge was taxable, you must prorate the bad debt to determine the amount you can claim as a deduction. To prorate the debt, multiply the bad debt amount by the taxable percentage of the total charge (taxable portion of charge ÷ total charge).

If you collect payment from your customer after you have claimed the deduction, you must report and pay tax on the amount collected that applies to the taxable portion of your charges. If your charges included both taxable and nontaxable amounts, you must prorate the payment between those amounts to determine how much tax is due on the recovered bad debt.

Please note: The rules regarding bad debts are somewhat complex. Before you claim a deduction for a bad debt or pay tax on an amount you received after you claim a bad debt deduction, you may want to contact the Board’s Information Center for help. Detailed information is also available in Board Regulation 1642, *Bad Debts*.

Keeping adequate records

You are required to maintain records that adequately document the amounts reported on your sales tax returns. Upon request, you must make these records available for examination by a Board representative. If the representative is unable to verify your reported sales and tax amounts based on your records, you may be subject to penalties.

Your records should include those generally expected from a locksmith. Besides your summary records, you should keep all sales and purchase invoices, cash register receipts, repair orders, and any other documents that support the sales and use tax returns you have filed. To ensure that your records adequately support the amounts you report on your returns, you should:

- Make sure your invoices and repair orders are complete and easy to read. Identify all parts you have furnished and describe the type of labor performed.
- File invoices and repair orders in the same sequence as entered in your books.
- Separately list on your books the purchase of resale inventory and purchases of supplies and other non-resale items.

Note: You must keep your records for four years unless the Board authorizes you, in writing, to destroy them at an earlier date.

5. For More Information

General tax questions

If you have a general tax question, please call our toll-free number and talk to one of our Customer Service Representatives. They are available from 8:00 a.m. to 5:00 p.m., Monday–Friday, excluding state holidays. Please call:

800-400-7115

For TDD assistance (telephone device for the deaf), please call

From TDD phones:
800-735-2929

From voice phones:
800-735-2922

Questions regarding your account

Please call the office that maintains your records. The name and telephone number of the appropriate office is printed on your tax returns. Field office telephone numbers are provided on page 19.

To verify a seller's permit number—*resale certificates*

If you wish to verify the seller's permit number for a business that gives you a resale certificate for their purchase, you may use our interactive service on the Internet (see next page), or call us at 888-225-5263 (toll-free), seven days a week. Please have on hand the seller's permit number you wish to verify, the business name, business address, and business owner's name.

Fax-back service

Our fax-back service, which allows you to order selected forms and publications, is available 24 hours a day. Call 800-400-7115 and choose the fax option. We'll fax back to you within 24 hours.

Publications and regulations

To obtain copies of publications and regulations, you may

Call our Information Center. A Customer Service Representative will help you during working hours. If you know the name of the publication, form, or regulation you need, you can call outside of working hours and leave a recorded message. Certain documents are also available on our fax-back service, described above.

Send a fax request. You can request forms and publications by sending a fax to 916-322-2015.

Use the Internet. Certain regulations and publications are available on our Internet site. See next page.

Regulations. The following regulations may be of interest to you:

- 1501 Service Enterprises Generally
- 1521 Construction Contractors
- 1526 Producing, Fabricating and Processing Property Furnished by Consumers—General Rules
- 1546 Installing, Repairing, Reconditioning in General

***Publications and
regulations
(continued)***

- 1668 Sales for Resale
- 1698 Records
- 1821 Foreword—District Taxes

Publications. You may find the following publications to be helpful. The letter V, K, C, S, or F following a publication indicates the pamphlet is available in Vietnamese, Korean, Chinese, Spanish, or Farsi:

- 9 Tax Tips for Construction and Building Contractors
- 17 Appeals Procedures: Sales and Use Taxes and Special Taxes
- 42 Resale Certificate Tips (S)
- 44 Tax Tips for District Taxes
- 51 Guide to Board of Equalization Services (C,K,S,V)
- 61 Sales and Use Taxes: Exemptions and Exclusions
- 73 Your California Seller's Permit (C,K,S,V,F)
- 74 Closing Out Your Seller's Permit (C,S)
- 75 Interest and Penalty Payments
- 76 Audits (S,K,F)
- 100 Shipping and Delivery Charges (S)
- 103 Sales for Resale (S)
- 105 District Taxes and Delivered Sales
- 108 When Is Labor Taxable? (S)
- 112 Purchases from Out-of-State Vendors (S)

***Tax Information
Bulletin***

As a registered seller, you also receive the quarterly *Tax Information Bulletin*, which includes articles on the application of law to specific types of transactions, announcements regarding new and revised publications, and other articles of interest to sellers. The bulletin is mailed with your sales and use tax return(s). If you file only once a year and would like to receive all four bulletins, please write to the following address and ask to be added to Mailing List #15:

Mail Services Unit, MIC:12
Attn: Addressing Systems
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0012

***Internet access—
www.boe.ca.gov***

We maintain the following information on our Internet site: sales and use tax rates by county, *Business Taxes Law Guide* (laws and regulations), Board field office addresses and telephone numbers, Taxpayers' Bill of Rights Hearings, pending regulations, publication order forms, an agency profile, and Board Member biographies. You can also verify seller's permit numbers on-line and download copies of selected regulations and publications. Enter <http://www.boe.ca.gov>.

Written tax advice

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if the Board determines that it gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account.

Tax relief is not available if you incorrectly apply tax based on Board advice given in person or over the telephone.

Classes

You may enroll in a basic sales and use tax class offered by some local Board offices. You should call ahead to find out whether your local office conducts a class for beginning sellers.

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with the Board, or if you would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate office:

Taxpayers' Rights Advocate Office, MIC: 70

State Board of Equalization

P.O. Box 942879

Sacramento CA 94279-0070

Phone: 888-324-2798 toll-free

916-324-2798

Fax: 916-323-3319

Other Board-administered taxes and fees

The Board administers many tax and fee programs in addition to the state's sales and use taxes. For a complete listing, please request a copy of our publication 51, *Guide to Board of Equalization Services*.

Field offices

City	Area Code	Number	City	Area Code	Number
Bakersfield	661	395-2880	San Jose	408	277-1231
Culver City	310	342-1000	San Marcos	760	510-5850
El Centro	760	352-3431	Santa Ana	714	558-4059
Eureka	707	445-6500	Santa Rosa	707	576-2100
Fresno	559	248-4219	Stockton	209	948-7720
Kearny Mesa	858	636-3191	Suisun City	707	428-2041
Laguna Hills	949	461-5711	Torrance	310	516-4300
Norwalk	562	466-1694	Van Nuys	818	904-2300
Oakland	510	622-4100	Ventura	805	677-2700
Rancho Mirage	760	346-8096	West Covina	626	480-7200
Redding	530	224-4729	<i>For Out-of-State Accounts</i>		
Riverside	909	680-6400	Chicago, IL	312	201-5300
Sacramento	916	227-6700	Houston, TX	281	531-3450
Salinas	831	443-3003	New York, NY	212	697-4680
San Diego	619	525-4526	Sacramento, CA	916	227-6600
San Francisco	415	356-6600			

5. Appendix

Common Locksmith Transactions

Summary table—“Applying Tax to Locksmith Labor and Service Charges”

Common locksmith transactions

Fabrication of personal property

This section is intended to illustrate the principles described in the other chapters of this publication. It gives examples only and should not be considered a comprehensive list.

1. A customer brings you a lock that is missing a key and asks you to make a new key. Using one or more techniques (impression, duplication, disassembly, cutting by code, etc.), you make a key to fit the lock.

Making a key is a taxable transaction (fabrication), provided you give the customer the key. All related labor and service charges are taxable.

2. You travel to a customer's home to make an automobile ignition key or a new house key. You charge a trip charge in addition to the charges for making the key and the key itself.

Making a key is a taxable transaction (fabrication) and tax applies to all charges for materials, labor, and services, including any trip charge or service call charge.

3. You install a door lock in a customer's shop and charge one lump-sum amount for the installation, the lock, and a trip charge.

Your charges, including your trip charge, are not taxable. Since you have performed a lump-sum construction contract (see page 6), you are the consumer of the lock and other materials. If you did not pay an amount for tax to your supplier when you bought the lock, you must pay use tax on its purchase price with your sales and use tax return.

4. Would tax apply differently in the example above if you billed under a time-and-materials contract and charged your customer an amount for “sales tax” on materials?

Yes. In a time-and-materials contract where you charge an amount for “sales tax” computed on a marked-up billing for materials, you are the retailer of the materials you provide. Tax applies to your charge for materials. Your installation charge, however, is not taxable. Your trip charge is partially taxable (see page 8).

Installation of lock—real estate

Installation of lock—personal property

5. You travel to a location away from your shop and install a lock in a customer's used car. You charge separate amounts for materials, installation, and travel.

You are the retailer in this situation and your sale of the lock is taxable (see page 2). Your installation charge is not taxable. Your travel charge is partially taxable (see page 8).

Repair of personal property and fabrication of key

6. A customer provides a lock and asks you to change the lock so that the existing key will no longer operate the lock. She also wants you to provide a new key. You take apart the lock and change the internal components so that the original key will not work, using some components from the lock itself and some minor new components. You charge your customer a lump-sum amount for the job.

Do you apply tax differently if the customer furnishes a functioning key or if you use only original parts for the repair?

The object of the transaction is to re-key the lock, which is considered a repair service, and to provide a new key that works. Tax applies in the same way regardless of whether your customer provides a key or whether you use only original components for the repair.

How does tax apply to amounts for labor included in your charges?

Re-keying a lock is considered a repair service, as noted above. The labor for re-keying the lock is not taxable. The labor for making the key, however, is taxable as fabrication labor. Your fabrication charge is considered part of the total charge for the new key.

How does tax apply to amounts for materials included in your charges?

Tax applies to your charge for the new lock components and the total charge for the new key (including the fabrication labor charge for making the key) if their combined retail selling value is more than 10 percent of your total lump-sum charge. If their value is lower, you are the consumer of the materials and you owe use tax on their purchase price unless you paid an amount for tax to your supplier when you bought them. Tax would not apply to the amount you charge your customer for materials (see page 4).

Applying Tax to Locksmith Labor and Service Charges

<i>Type of work you perform</i>	<i>Labor taxable (fabrication)</i>	<i>Labor not taxable (repair)</i>	<i>Labor not taxable (installation)</i>
Making new keys Making key by duplication or cutting by code	X All charges associated with making the key, including any trip or service charge		
Removing and replacing lock in order to make new key		X	
Re-keying locks Removing and replacing lock cylinder, re-pinning a new cylinder to a new code, shim-ming or picking lock cylinder		X	
Cutting new key	X		
Making “old key” if necessary to re-key lock	X If you provide key to your customer	X If you use key only to open lock for re-keying and do not deliver key to customer	
Opening locks		X	
Installing locks	X On new personal property such as automobiles (see note) desks, safes, boats	X On used personal property such as autos (see note) desks, safes, boats	X In real property, such as houses, office buildings, apartment buildings
Safes—servicing and installing Changing combinations, servicing		X	
Installing floor or wall safe in building			X
Alarms—installing new systems	X In new automobiles (see note below)		X In buildings or used automobiles

Notes

Fabrication labor is not taxable if your transaction is a sale for resale.

An automobile is considered “new” if

- It qualifies as a new vehicle when registered with the Department of Motor Vehicles.
- You contract to work on the vehicle within 60 days of its registration date.

What do you think of this pamphlet?

We hope that this newly revised tax tip pamphlet will help you to better understand the Sales and Use Tax Law as it applies to your business.

We would appreciate it if you could take a few minutes to give us your comments and suggestions for this pamphlet, so that we can improve future revisions. We'd also like to have some information that will help us make our publications program more useful to you. Please answer the questions below and on the reverse, remove the page, and return it to us. It is designed as a postage-paid self-mailer. You may fold the page as indicated and seal it with two pieces of tape.

Thank you for taking the time to respond to this survey.

Pamphlet Comments and Suggestions

1. Does this pamphlet help you apply the sales and use tax in your business operations?
2. Please note any sections of the pamphlet that you find particularly helpful.
3. What sections of the pamphlet, if any, did you find confusing? (please explain why, if possible)
4. Please indicate any topics not addressed in this pamphlet that you would like us to include.
5. What sections of the pamphlet do you feel are incomplete, and what would you add to them?
6. What other comments or suggestions do you have for improving this pamphlet?

Name (optional)_____ Phone (optional)_____

Date_____

tape



State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0058



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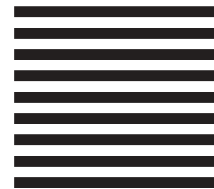
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Reader Survey Information (please check all boxes that apply)

What is the nature of your business?

☐ Other (please list) _____

How long have you been in business?

- ☐ less than one year ☐ 1-5 years
☐ 6-10 years ☐ more than 10 years

Did you receive a copy of this pamphlet (or an earlier version) when you applied for or received your seller's permit?

- ☐ yes ☐ no ☐ not sure

How did you find out about this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Tax Information Bulletin
☐ Publications listing in a Board pamphlet
☐ Board Web site

Where did you obtain this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Board Information Center
☐ Board Web site
☐ Other (please list) _____

Do you use any other Board publications to help you apply or understand the California Sales and Use Tax Law? (please list) _____

